

Message Text

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SUBJ: LISBON BUSINESS COMMUNITY GLOOMY

1. SUMMARY: A LARGE NUMBER OF PORTUGUESE AND AMERICAN BUSINESSMEN ALIKE ARE EXPRESSING SERIOUS CONCERN ABOUT THE PRESENT TRENDS IN PORTUGAL'S ECONOMY. MAJOR INDICATORS FOR THE MONTH OF MAY SUGGEST THAT APPREHENSION OVER POLITICAL UNCERTAINTIES AND LABOR UNREST HAVE CAUSED A SLOWDOWN IN BUSINESS ACTIVITY. ALTHOUGH FEW STRIKES ARE STILL IN EFFECT, MANY ENTERPRISES HAVE CONTINUING LABOR DISPUTES ACCOMPANIED BY CORRESPONDING SLOWDOWNS IN PRODUCTION. MOST MANUFACTURING FIRMS HAVE FREEZE ON NEW HIRING AND LAYOFFS APPEAR IMMINENT IN SOME LABOR INTENSIVE INDUSTRIES. NEW INVESTMENTS IN CAPITAL EQUIPMENT ARE NOT FORTHCOMING AND SOME ENTERPRISES ARE RUMORED TO BE ON A VERGE OF SHUTTING DOWN AND/OR DISINVESTING. ECONOMIC PLANNERS ARE WORRIED ABOUT SLACK IN CONSTRUCTION SECTOR, IN GENERAL, AND DECLINE IN HOUSING PROJECTS, IN PARTICULAR. LISBON BANKS REPORT A SHORTAGE IN LIQUIDITY WHICH FURTHER RESTRAINS NORMAL BUSINESS TRANSACTIONS. RETAIL SALES WERE SLOW IN MAY PRESUMABLY DUE TO CONSERVATIVE SHOPPING, DECLINE

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IN TOURISM, AND DROP IN EMIGRANT REMITTANCES. THIS

SLUMP IN CONSUMPTION COMBINED WITH GOP'S FREEZE ON PRICES SEEM TO HAVE HEADED OFF AN EXPECTED JUMP IN CONSUMER PRICES IN MAY. HOWEVER, RISE IN PRICES SEEMS NEARLY INEVITABLE IN MID-SUMMER. POLITICAL MODERATES IN GOP ARE PREPARING NEW MEASURES TO RESOLVE CURRENT ECONOMIC PROBLEMS AND THEIR EFFECTIVENESS WILL DETERMINE FUTURE ATTITUDES OF BUSINESS COMMUNITY. END SUMMARY.

2. IN SPITE OF ASSERTIONS BY MINISTRY OF ECONOMIC COORDINATION OFFICIALS THAT THE PROVISIONAL GOP INTENDS TO CREATE CONDITIONS FAVORABLE TO NEW INVESTMENTS, PRACTICALLY ALL BUSINESSMEN, FOREIGN AND DOMESTIC ALIKE, EXPRESS SERIOUS RESERVATIONS ABOUT ANY NEW INVESTMENT AT THIS TIME. AT THE BEST, POTENTIAL INVESTORS HAVE A WAIT-AND-SEE ATTITUDE. OTHERS, HOWEVER, HAVE ABANDONED PLANS FOR INVESTMENT AND SOME BUSINESSES SEEM DOOMED TO FAILURE DUE TO INCREASES IN LABOR COSTS SINCE APRIL 25 COUP. MANAGERS OF EXPORT INDUSTRIES-TEXTILE, ELECTRONICS, PROCESSED FOODS AND CORK PRODUCTS-WHICH ARE HEAVILY LABOR INTENSIVE, BELIEVE THAT RISING LABOR COSTS WILL IMPACT ON PORTUGAL'S BALANCE OF PAYMENTS AS WELL AS ON EMPLOYMENT AND PRODUCTION. SMALL ENTERPRISES WHICH TRADITIONALLY HAVE WORKED ON SMALL PROFIT MARGINS AND LITTLE CASH RESERVES ARE EVEN MORE SERIOUSLY THREATENED WITH FAILURE THAN LARGE FIRMS. THE ISSUE OF MANAGEMENT PREROGATIVES IN MEDIUM SIZE AND LARGE ENTERPRISES ALSO HAS CALLED INTO QUESTION NEW INVESTMENTS. FEW LARGE FIRMS HAVE BEEN EXEMPTED FROM DEMANDS FOR "SANEAMENTO" I.E., THE FIRING OF UNPOPULAR MANAGERS OR SUPERVISORS. WORKERS' COMMITTEES HAVE DEMANDED THE RIGHT TO REVIEW MANAGEMENT POLICIES, HIRING AND FIRING OF PERSONNEL AND FOREIGN CAPITAL TRANSACTIONS. PROFIT SHARING PLANS ALSO HAVE BECOME A STANDARD ISSUE BETWEEN LABOR AND MANAGEMENT. WITH GOP AND LAW ENFORCEMENT AGENCIES RELUCTANT TO INTERVENE, MANAGERS IN MANY FACTORIES HAVE VIRTUALLY LOST CONTROL OF THEIR ENTERPRISES WITH PRODUCTION DEPENDENT ON CO-EXISTENCE AND COOPERATION OF THE WORKERS' COMMITTEES.

3. SHORTAGE OF LIQUIDITY IS CITED BY LISBON BANKERS AS ONE LIMITED OFFICIAL USE

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OF MAJOR RESTRAINTS ON FLOW OF BUSINESS TRANSACTIONS. ONE KNOWLEDGEABLE BANKER CLAIMS THAT LIQUIDITY HAS BEEN DRAINED BY THREE FACTORS: A) MANY DEPOSITORS HAVE WITHDRAWN SAVINGS FROM COMMERCIAL BANKS IN ANTICIPATION OF FUTURE POLITICAL PROBLEMS; B) LISBON STOCK EXCHANGE HAS BEEN CLOSED SINCE APRIL 25 COUP RESULTING IN TYING UP FUNDS LENT ON SHORT TERM TO COVER SHARES BOUGHT ON MARGIN; AND C) INFLOW OF EMIGRANT REMITTANCES TRANSFERRED

THROUGH COMMERCIAL BANKS AND PROVIDING QUOTE OVER-NIGHT UNQUOTE LIQUIDITY HAS VIRTUALLY CEASED. ONE OF MAJOR CONSEQUENCES OF SHORTAGE OF LIQUIDITY HAS BEEN INABILITY OF BANKS TO PROVIDE SHORT TERM BUILDERS' CREDITS FOR CONSTRUCTION SECTOR. THIS LIMITATION PLUS ABSENCE OF RISK CAPITAL FOR CONSTRUCTION AND SHOUSING DURING THIS PERIOD OF POLITICAL UPHEAVAL HAS CAUSED A MAJOR SLOWDOWN IN CONSTRUCTION, ONE OF KEY SECTORS FOR PORTUGAL'S CONTINUED ECONOMIC GROWTH.

4. RETAIL SALES IN MAY REPORTEDLY FELL BELOW LEVELS PROJECTED BY BUSINESS PLANNERS. THE MAJOR EXPLANATION SEEMS TO BE THAT CONSUMERS ARE SITTING ON THEIR CASH IN ANTICIPATION OF HARD TIMES AHEAD. AN EXECUTIVE FROM PAO DE ACUCAR, PORTUGAL'S LARGEST SUPERMARKET CHAIN, REPORTED SALES OFF 30 PERCENT IN MAY. HE EXPLAINED THAT SALES OF FOOD PRODUCTS WERE DOWN 10 PERCENT MAINLY IN SEMI-LUXURY ITEMS SUCH AS PROCESSED FOODS, BUT CLOTHING, COSMETICS, TOYS AND SPORTS EQUIPMENT SALES WERE AT ABOUT 50 PERCENT EXPECTED LEVELS. ALTHOUGH CONSUMER PATTERNS ARE NOT WELL QUANTIFIED IN PORTUGAL, THIS SUPERMARKET EXECUTIVE SUGGESTED THAT WORKING CLASS CONSUMPTION WAS UP DUE TO RECENT WAGE INCREASES, BUT CONSERVATIVE BUYING BY MIDDLE CLASS CONSUMERS WHO MAKE UP THE BULK OF PAO DE ACUCAR CUSTOMERS MORE THAN OFFSET THE TREND. THIS DIP IN RETAIL SALES WAS CONFIRMED BY DISTRIBUTORS OF AUTOMOBILE TIRES, TOILETRIES, AND HOUSEHOLD APPLIANCES. ONE POSITIVE ASPECT OF THIS SLUMP IN CONSUMPTION HAS BEEN TO AID THE EFFECTIVENESS OF THE GOP'S FREEZE ON PRICES. HOWEVER PRICE INCREASES LATER THIS SUMMER SEEM INEVITABLE.

5. IMMIGRANT REMITTANCES AND TOURISM, TWO OF PORTUGAL'S LARGEST FOREIGN EXCHANGE EARNERS, ALSO ARE DOWN FOLLOWING LIMITED OFFICIAL USE

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THE APRIL 25 COUP. ALTHOUGH STATISTICS FOR MAY ARE NOT YET AVAILABLE, A BANK OF PORTUGAL OFFICIAL CONFIDENTIALLY TOLD EMBOFF THAT IN-FLOW OF REMITTANCES DECLINED DURING FIRST WEEKS AFTER THE COUP AND STILL HAVE NOT RETURNED TO PREVIOUS LEVELS. TOURISM FOR A COMBINATION OF REASONS IS NOTICEABLY DOWN WITH SUMMERTIME HOTEL SPACE UNCHARACTERISTICALLY AVAILABLE ALL OVER PORTUGAL. FOR WHATEVER CAUSES, THE SLOWDOWN IN EMIGRANT REMITTANCES AND TOURISM WILL REDUCE DISPOSABLE INCOME IN PORTUGAL AND COULD SHIFT THE BALANCE OF PAYMENTS TO DEFICIT POSITION IN 1974.

6. COMMENTS: SOME ECONOMIC DIFFICULTIES WERE PREDICTABLE AS A CONSEQUENCE OF THE APRIL 25 COUP. THEY SEEM, HOWEVER, TO HAVE BEEN AGGRAVATED BY THE POLITICAL AGILITY OF THE

LEFT VIS-VIS THE MODERATES. UNDER THE COALITION
ARRANGEMENT, MODERATE POLITICAL REPRESENTATIVES WERE
GIVEN CONTROL OF THE MINISTRY OF ECONOMIC COORDINATION.
THEY WILL BE DISCREDITED, HOWEVER, IF THEY FAIL TO
MAINTAIN FINANCIAL STABILITY AND ECONOMIC GROWTH.
IN THAT EVENT, BUSINESSMEN FEAR THAT LEFTIST FORCES
COULD BE SWEEPED INTO POWER IN FUTURE ELECTIONS. BUSINESS
LEADERS ARE JITTERY OVER WHAT THEY CONSIDER GLOOMY
PROSPECTS AND ARE UNLIKELY TO MAKE NEW INVESTMENTS
NECESSARY TO STIMULATE STABILITY AND GROWTH. WHILE
THE PESSIMISM OF MOST BUSINESSMEN IS UNDERSTANDABLE,
THE EMBASSY IS CONVINCED THAT POWERFUL FORCES ARE
AT WORK WITHIN GOP TO CREATE THE CONDITIONS WHICH WOULD
RESTORE CONFIDENCE OF BUSINESS COMMUNITY. IT REMAINS
TO BE SEEN HOW QUICKLY AND EFFECTIVELY THESE MODERATE
FORCES CAN RESPOND TO THESE CIRCUMSTANCES. SCOTT

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